

EAST RENFREWSHIRE COUNCILCABINET25 JANUARY 2018Report by Director of EducationDEVOLVED SCHOOL MANAGEMENT: CARRY-FORWARD PROPOSAL**PURPOSE OF REPORT**

1. The purpose of this report is to seek approval that subject to certain conditions, allow Head Teachers on behalf of their school/early years centre to carry-forward Devolved School Management (DSM) budget underspends up to a maximum level and thereby enhance the flexibility within DSM budgets.

**RECOMMENDATIONS**

2. It is recommended that the Cabinet:
- (a) Approve with immediate effect a change to the administration of DSM in East Renfrewshire to allow schools to carry-forward budget underspends within an agreed tolerance and subject to certain conditions being met as described in paragraph 18; and
  - (b) Remit to the Director of Education to review DSM procedures to ensure they meet evolving requirements of Head Teachers and to reflect the outcome of national developments as they impact on DSM.

**BACKGROUND AND CONTEXT**

3. Devolved School Management was introduced in 1993 by the then Scottish Executive requiring councils to devolve 80% of school budgets to Head Teachers to give them the autonomy to make decisions on resource allocation and priorities subject to local consultation. Early years facilities also operate under DSM.

4. Since then DSM guidance has evolved to reflect the changing landscape within which schools operate. Such changes include policy, procedural, legislative and the economic and financial climate.

5. Budgets within DSM are only one part of the overall financial management of the Education Department and it is important to recognise that there is a strong relationship between devolved and non-devolved budgets in maintaining a sound and robust financial strategy for the department and the Council.

6. A range of factors need to be considered in determining the optimum model for the devolvement of budgets to schools to ensure that best value is achieved and empower Head Teachers to achieve the best possible outcomes for children and young people.

7. It is important to note that DSM procedures set out the rules and principles in which schools operate in normal circumstances. However should there be exceptional

4  
circumstances, for example the impact of changing financial circumstances during the course of a financial year requiring measures to be taken to ensure the department's overall expenditure is controlled, it may be necessary to temporarily amend the rules of DSM. Any such decisions would be done so at the discretion of the Director of Education and discussed with the Head of Accountancy (Chief Financial Officer) and Chief Executive. Head Teachers would be advised of such intent as early as possible, with the implications of such a decision clearly identified and explained. Any such necessary action would be reported to Cabinet as part of the regular budget monitoring process. Elected members should note that to date this has never been necessary in East Renfrewshire but we are aware of it taking place in other authority areas.

8. It is the responsibility of the Head Teacher, supported by Business Support Managers to ensure effective management of financial and other resources for learning and teaching. This includes ensuring effective budgetary control.

9. East Renfrewshire's overall Education budget has never been overspent and DSM has operated well to date.

## **CHANGING LANDSCAPE**

10. It is clear that there will likely be further changes that will impact on DSM in line with emerging national developments resulting from the Scottish Government Review of Education Governance, the national consultation on Fair Funding, and the current consultation on the proposed Education (Scotland) Bill 2018. The latter specifically includes the provision of a Head Teachers Charter and with that greater autonomy over for example their school curriculum and staffing structures, and delegated management of defined and greater proportions of their school budget. The extent of the impact on DSM is as yet unknown and awaits the outcome of discussions and the proposed Bill ultimately being enacted.

11. In discussions with Head Teachers about budget and in particular around the significant additional savings required over the period 2018-2021, they have told us that they would rather decide themselves how they deal with a reduction in their school budgets. A means of assisting them in doing this would be to give them the ability to carry-forward unspent resources recognising that the academic year runs from August-June, transcending the financial year-end of 31 March. This will provide Head Teachers greater flexibility with their budgets, maximise best value to align them with the School Improvement Plan recognising that expenditure commitments operate on an academic year and not on a financial year basis.

12. It is proposed that with immediate effect elected members approve a change to the administration of DSM in East Renfrewshire to allow schools to carry-forward budget underspends within an agreed tolerance and subject to certain conditions described later in the report. In discussion with the Head of Accountancy a DSM reserve (earmarked for schools) would be established to allow funds to be transferred between financial years. Head Teachers could use approved carried forward funds the following year or some of the funds could be accumulated to allow a school to save to fund a particular improvement priority/project.

13. It is further proposed that DSM procedures are reviewed to ensure they meet evolving requirements of Head Teachers and to reflect the outcome of national developments where there is an impact on DSM.

## DSM CARRY-FORWARD PRINCIPLES

14. National DSM guidance notes that while Head Teachers should be given maximum flexibility over their budgets, there are some areas of expenditure that are generally not considered suitable for devolution and that the underlying principle should be that devolution should be meaningful and allow Head Teachers the flexibility needed to ensure that decisions that need to be made locally are made locally.

15. It is recognised that there are some budget lines within a school's budget that are outwith the direct control of Head Teachers and in fact these lines are only nominally devolved to schools. Best practice would state that only budget lines where Head Teachers have power to exercise control over should be termed as devolved. In the interest of transparency and accountability it is therefore proposed that schools' budgets are shown as comprised of two elements: devolved (DSM budget) and non-devolved (non-DSM budget).

16. For each school the DSM budget would comprise budget lines that are controllable by the Head Teacher who has flexibility in determining their use and is able to vire monies between budget headings e.g. teachers staffing, classroom materials, apparatus and equipment; and the non-DSM budget would comprise other budget lines that support the running of the school but for which the Head Teacher has no or little influence over e.g. rates, grounds maintenance contract, utilities. A summary of these budget categories is shown in the *Appendix*.

17. The reason the non-DSM budget lines are included as part of each school's budget is to achieve a more realistic cost of running each establishment. Head Teachers, in their capacity as budget holder, supported by Business Support Managers, are expected to be aware of the cost behaviour associated with these areas of the school's budget; and where variations from budget exist, should raise appropriate queries with managers in the department's Budget Unit.

18. The carry-forward proposals to provide Head Teachers greater flexibility over their budgets would relate only to the DSM budget should they have unspent resources. In determining the potential carry-forward amount, the following conditions must be met:

- a) Overall Education Department Budget (excluding central support recharges and the service payment to ERCL) is underspent (as verified by external audit of the annual report and accounts of the Council); and
- b) The total amount carried-forward from the DSM budget cannot exceed the total Education Department Budget underspend.

19. Provided the above conditions are met, Head Teachers on behalf of schools would potentially be able to carry-forward a proportion of unspent DSM budget up to a maximum of 5% at the end of the financial year. The actual carry-forward amount would be calculated by determining the net expenditure position of the school's DSM budget.

20. By way of illustration, a school may have an underspend equivalent to 6% of its DSM budget and would now have flexibility to carry-forward 5%. Another school may have an underspend equivalent to 3% of its DSM budget which they could carry-forward in full.

21. It should be noted that the budget devolved to a school in any financial year should be targeted at the priorities identified in the School's Improvement Plan and should be for the benefit of current pupils. Head Teachers must therefore ensure that all carry-forwards are planned and should not be used as a means of setting aside resources for the future with no identified plans for the carry-forward. All carry-forwards must be entirely utilised within a three-year period aligning with the School Improvement Plan and its timeframe.

22. Should elected members approve the carry-forward proposal as defined, a tapering approach to help establish the DSM reserve over the initial three-year period would be taken. This would mean that for year one (carry forward from 2017/18 to 2018/19) a maximum of 5% would be permitted towards the reserve for each school provided the conditions set out in paragraph 18 are met; this would reduce to 3.5% in year 2 and finally to 2% in year 3. Thereafter the maximum permissible limit would be reviewed in conjunction with the Head of Accountancy.

23. In considering the introduction of carry-forwards from DSM budgets there must also be robust procedures in place to deal with the unlikely event that unplanned overspends occur in the DSM budget. Regular close budget monitoring is used to ensure that an unplanned overspend does not materialise at the financial year-end, since if required early corrective action would be taken. However, should such remedial action not fully address the overspend by the financial year-end, the shortfall would be deducted from the school's DSM budget via an increased savings target in the following financial year and the Head Teacher would be required to provide an action plan to evidence how they will deliver a balanced budget by the end of that same financial year. If a school's DSM budget outturn position is, unreasonably or persistently overspent, despite strong budget monitoring and support, then such action could be considered by the Director of Education as grounds for disciplinary action.

## **FINANCE & EFFICIENCY**

24. The introduction of carry-forward for DSM Budget does not introduce new funding to schools; however, it does enable a more targeted approach to areas of financial need and more efficient use of available resources. It will allow greater flexibility to schools and allow Head Teachers to plan for longer term priorities/ investments in line with the three-year rolling School Improvement Plan.

25. In discussion with the Head of Accountancy a DSM reserve (earmarked for schools) would be established to allow funds to be transferred between financial years. This is merely the vehicle to facilitate the carry forward of budget across financial years.

## **CONSULTATION**

26. As part of budget discussions, Head Teachers have been consulted and are supportive of establishing a carry-forward facility. This was also subject of the wider consultation on the savings exercise for the period 2018-2021. This consultation included all Parent Council chairs or their representatives, and Head boys and Head girls of secondary schools.

27. The Head of Accountancy has been consulted about this proposal and the principles under which it could operate as part of the overall Council's financial procedures and operating context.

## **IMPLICATIONS OF REPORT**

28. As noted above Head Teachers would have greater flexibility over their DSM budgets and the Head of Accountancy would establish a DSM reserve. Head Teachers would continue to provide regular budget updates for their school community and in particular now consult them over any plans to carry-forward unspent DSM budget.

29. There are no particular implications in terms of staffing, property, legal, IT, equalities or sustainability.

## CONCLUSION

30. The proposal to introduce an element of carry-forward of unspent resources from schools' DSM budgets for use by Head Teachers would empower them to better meet local needs and deliver the best possible outcomes for their learners. It increases the flexibility that Head Teachers would have helping to maximise available resources at their disposal, which is particularly important at times of significant financial restraint.

31. This would be an interim change to DSM procedures, since there will likely be further changes as a consequence of evolving national developments on governance, funding, the Head Teachers charter etc. that will impact on the administration of DSM. Once the impact is known the DSM procedures will be reviewed to ensure they meet evolving requirements of Head Teachers in this respect.

## RECOMMENDATIONS

32. It is recommended that the Cabinet:

- (a) Approve with immediate effect a change to the administration of DSM in East Renfrewshire to allow schools to carry-forward budget underspends within an agreed tolerance and subject to certain conditions being met as described in paragraph 18; and
- (b) Remit to the Director of Education to review DSM procedures to ensure they meet evolving requirements of Head Teachers and to reflect the outcome of national developments as they impact on DSM.

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## PROPOSED CATEGORISATION OF BUDGET LINES

Budget Category	DSM Budget	Non-DSM Budget
Staff Costs with the exception of the following lines :-	✓	
Janitorial costs		✓
Wraparound costs		✓
Property Costs - with the exception of the following lines :-		✓
Cleaning and Hygiene Supplies	✓	
Furniture and Fittings	✓	
Health and Safety	✓	
Other Property costs	✓	
Transport Costs - with the exception of the following lines:-		✓
Consortium Transport	✓	
Supplies and Services - with the exception of the following lines :-	✓	
PFI/PPP costs		✓
School Meal Costs		✓
Carbon Reduction Commitment		✓
Cash Uplift Costs		✓
Third Party Payments - SQA Costs	✓	
Support Services		✓
Income - with the exception of the following line :-		✓
Easter School income	✓	

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